



House of Representatives

General Assembly

File No. 90

January Session, 2005

Substitute House Bill No. 6709

House of Representatives, March 30, 2005

The Committee on Higher Education and Employment Advancement reported through REP. WILLIS of the 64th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING THE CONNECTICUT STUDENT LOAN FOUNDATION.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (f) of section 10a-202 of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective July*
3 *1, 2005*):

4 (f) "Eligible lender" means "eligible lender", as defined in Title IV,
5 Part B of the Higher Education Act of 1965, where applicable.

6 Sec. 2. Subsection (a) of section 10a-203 of the general statutes is
7 repealed and the following is substituted in lieu thereof (*Effective July*
8 *1, 2005*):

9 (a) Said corporation shall be governed and all of its corporate
10 powers exercised by a board of directors which shall consist of
11 [thirteen] fourteen members, as follows: The chairperson of the Board

12 of Governors of Higher Education and the Commissioner of Higher
13 Education; seven public members appointed by the Governor, at least
14 one of whom shall represent the private colleges, and commencing
15 with the next regular appointments made on and after July 1, 1984, at
16 least one shall be a financial aid officer at an eligible institution and at
17 least one shall be a person having a favorable reputation for skill,
18 knowledge and experience in management of a private company or
19 lending institution at least as large as the corporation and all of whom
20 shall be electors of this state; [and] one public member appointed by
21 the board of directors, who shall have, through education or
22 experience, an understanding of relevant accounting principles and
23 practices, financial statements and audit committee functions and
24 knowledge of internal controls, whom shall be an elector of this state;
25 two members from the House of Representatives, one appointed by
26 the speaker of the House of Representatives and one appointed by the
27 minority leader of the House of Representatives; and two members
28 from the Senate, one appointed by the president pro tempore of the
29 Senate and one appointed by the minority leader of the Senate. Those
30 members who are appointed by the Governor and by the board of
31 directors shall serve for terms of four years each from July first in the
32 year of their appointment and until their successors have been
33 appointed. Those members who are appointed by the speaker of the
34 House of Representatives, the minority leader of the House of
35 Representatives, the president pro tempore of the Senate and the
36 minority leader of the Senate shall be appointed for terms of two years
37 from January fifteenth in the year of their appointment. The term of
38 each appointed member of the board shall be coterminous with the
39 term of the appointing authority or until a successor is chosen,
40 whichever is later. The board of directors shall elect, from its own
41 members each year, a chairperson and a vice-chairperson who shall
42 serve for terms of one year and who shall be eligible for reelection for
43 successive terms. Vacancies shall be filled for the unexpired term in the
44 same manner as original appointments. Directors shall receive no
45 compensation for their services but shall be reimbursed for their
46 expenses actually and necessarily incurred by them in the performance

47 of their duties under this chapter. Any member may designate in
48 writing to the chairperson of the board of directors a representative to
49 act in the place of such member at a meeting or meetings, with all
50 rights and obligations at such meeting as the member represented
51 would have had at the meeting.

52 Sec. 3. Section 10a-204 of the general statutes is repealed and the
53 following is substituted in lieu thereof (*Effective July 1, 2005*):

54 The board of directors shall have the following powers:

55 (1) To lend money or guarantee the loan of money, and to acquire
56 and sell loans, upon such terms and conditions as the board [or any
57 rating agency or underwriter] may prescribe, within the limitations
58 contained in this chapter and in Title IV, Part B of the Higher
59 Education Act of 1965, where applicable, to assist persons in meeting
60 the expenses of education; provided no such person shall receive any
61 loan or loans in excess of such amounts as the board may authorize or
62 amounts which are in conformance with Title IV, Part B of the Higher
63 Education Act of 1965, where applicable. The board may procure a
64 policy or policies of group life insurance to insure the repayment of
65 loans made or guaranteed by the corporation in the event of the death
66 of an individual to whom a loan is made or guaranteed hereunder. The
67 board may charge any person receiving a loan under the provisions of
68 this subsection an amount deemed reasonable by the board but in no
69 event shall such amount exceed the amount provided by the
70 provisions of Title IV, Part B of the Higher Education Act of 1965,
71 where applicable.

72 (2) To take, hold and administer, on behalf of the corporation and
73 for any of its purposes, real property, personal property and moneys,
74 or any interest therein, and the income therefrom, either absolutely or
75 in trust, for any purpose of the corporation. The board of directors may
76 acquire property or moneys for such purpose by purchase or lease and
77 by the acceptance of gifts, grants, bequests, devises or loans; provided
78 no obligation of the corporation shall be a debt of the state, and the
79 corporation shall have no power to make its debts payable out of any

80 moneys except those of the corporation. [, except that, if state
81 appropriations are not sufficient to pay that portion of any loans which
82 are to be repaid by the corporation under the provisions of subsection
83 (c) of section 10a-206, the state shall guarantee to make such payments
84 when due.]

85 (3) To enter into contracts with institutions of higher education,
86 eligible lenders, nonprofit organizations or other legal entities
87 providing for the origination, administration, servicing, custody,
88 collection and guarantee of loans, investment agreements, agreements
89 in connection with credit facilities, interest rate exchange agreements
90 [to moderate interest fluctuations] and such other contracts and
91 agreements including, but not limited to, such contracts and
92 agreements with financial consultants, underwriters, counsel and
93 technical specialists and other professionals as the board of directors
94 shall deem necessary or desirable to the performance of its duties and
95 the execution of its powers under this section.

96 (4) To sue and be sued in the name of the corporation. Process in
97 any action or proceeding may be served upon the Secretary of the
98 State, as agent for the corporation, in the manner provided by
99 subsection (b) of section 33-663.

100 (5) To create and operate the affairs of the corporation through a
101 subsidiary or division, the dominant purpose of which shall be to carry
102 out the purposes and provisions of this chapter.

103 (6) To adopt rules and regulations, not inconsistent with Title IV,
104 Part B of the Higher Education Act of 1965, where applicable,
105 governing the qualifications, including financial need, and application
106 for and the granting, administration and terms of loans, financed,
107 serviced, made or guaranteed by the corporation, and governing any
108 other matters relating to the activities of the corporation.

109 (7) To issue bonds, notes or other obligations of the corporation, the
110 interest on which shall be includable in the gross income of the holder
111 or holders thereof for federal and state income tax purposes, to fund

112 and refund the same, to provide for the rights of the holders thereof
113 and to secure the same, all in accordance with section 10a-217.

114 (8) To perform such other acts as may be necessary or appropriate to
115 carry out effectively the objects and purposes of the corporation, as
116 specified in this chapter or in Title IV, Part B of the Higher Education
117 Act of 1965, where applicable.

118 Sec. 4. Section 10a-204b of the general statutes is repealed and the
119 following is substituted in lieu thereof (*Effective July 1, 2005*):

120 (a) The Connecticut Student Loan Foundation, a nonprofit
121 corporation is authorized from time to time to issue its bonds, notes or
122 other obligations in such principal amounts as in the opinion of the
123 corporation shall be necessary to provide sufficient funds for carrying
124 out the purposes set forth in [subsections (3) and (4)] subdivisions (2)
125 and (3) of section 10a-201 including the payment, funding or refunding
126 of the principal of, or interest or redemption premiums on, any bonds,
127 notes or other obligations issued by it whether the bonds, notes or
128 other obligations or interest to be funded or refunded have or have not
129 become due, the establishment of reserves to secure such bonds, notes
130 or other obligations and all other expenditures of the corporation
131 incident to and necessary or convenient to carry out the purposes set
132 forth in [subsections (3) and (4)] subdivisions (2) and (3) of section 10a-
133 201.

134 (b) Except as may be otherwise expressly provided herein or by any
135 resolution adopted by the corporation authorizing the issuance of
136 bonds, notes or other obligations every issue of bonds, notes or other
137 obligations shall be general obligations of the corporation payable out
138 of any moneys or revenues of the corporation subject only to [the
139 limitation in the subsection and to] any agreements with the holders of
140 particular bonds, notes or other obligations pledging any particular
141 moneys or revenues, or any specific pool of loans acquired by, the
142 corporation. Any such bonds, notes or other obligations may be
143 additionally secured by a pledge of any grant or contributions from
144 any department, agency or instrumentality of the United States or

145 person or a pledge or assignment of any moneys, income or revenues
146 of the corporation or payable to the corporation from any source
147 whatsoever.

148 (c) Any provision of any law to the contrary notwithstanding, any
149 bonds, notes or other obligations issued by the corporation pursuant to
150 this section shall be fully negotiable within the meaning and for all
151 purposes of title 42a, whether or not the form and character to so
152 qualify under the terms thereof, subject only to the provisions of the
153 authorizing resolution. Any such bonds are hereby made securities in
154 which public officers and public bodies of the state and its political
155 subdivisions, all insurance companies, credit unions, savings and loan
156 associations, investment companies, banking associations, trust
157 companies, executors, administrators, trustees and other fiduciaries
158 and pension, profit-sharing and retirement funds may properly and
159 legally invest funds, including capital in their control or belonging to
160 them, and are hereby made securities which may properly and legally
161 be deposited with and received by any state or municipal officer or any
162 agency or political subdivision of the state for any purpose for which
163 the deposit of bonds or other obligations of the state is now or may
164 hereafter be authorized by law.

165 (d) Bonds, notes or other obligations of the corporation shall be
166 authorized by resolution of the corporation and may be issued in one
167 or more series and shall bear such date or dates, mature at such time or
168 times, in the case of any such note, or any renewal thereof, not
169 exceeding five years from the date of the original issue of such notes,
170 and, in the case of bonds, not exceeding [thirty] forty years from the
171 date of the original issue of such bonds bear interest at such rate or
172 rates, be in such denomination or denominations, be in such form,
173 either coupon or registered, carry such conversion or registration
174 privileges, have such rank or priority, be executed in such manner, be
175 payable from such sources in such medium of payment at such place
176 or places within or without this state, and be subject to such terms of
177 redemption, with or without premium, as such resolution or
178 resolutions may provide. Such resolution may delegate to the

179 president of the corporation, acting solely or in combination with any
180 one or more directors, the power to determine any details of such
181 bonds, notes or other obligations and to award such bonds, notes or
182 other obligations to purchasers.

183 (e) Bonds, notes or other obligations of the corporation may be sold
184 at public or private sale at such price or prices as the corporation shall
185 determine.

186 (f) Bonds, notes or other obligations of the corporation may be
187 refunded and renewed from time to time as may be determined by
188 resolution of the corporation, provided any such refunding or renewal
189 shall be in conformity with any rights of the holders thereof.

190 (g) Bonds, notes or other obligations of the corporation issued under
191 the provisions of this section shall not be deemed to constitute a debt
192 or liability of the state or of any political subdivision thereof other than
193 the corporation or a pledge of the faith and credit of the state or of any
194 such political subdivision other than the corporation, and shall not
195 constitute bonds or notes issued or guaranteed by the state within the
196 meaning of section 3-21 but shall be payable solely from the funds
197 herein provided therefor. All such bonds, [bond] notes or other
198 obligations shall contain on the face thereof a statement to the effect
199 that neither the state of Connecticut nor any political subdivision
200 thereof other than the corporation shall be obligated to pay the same or
201 the interest thereon except from revenues or other funds of the
202 corporation pledged therefor and that neither the faith and credit nor
203 the taxing power of the state of Connecticut or of any political
204 subdivision thereof other than the corporation is pledged to the
205 payment of the principal of or the interest on such bonds, notes or
206 other obligations.

207 (h) Any resolution or resolutions authorizing the issuance of bonds,
208 notes or other obligations may contain provisions, except as expressly
209 limited in this section and except as otherwise limited by existing
210 agreements with the holders of bonds, notes or other obligations,
211 which shall be a part of the contract with the holders thereof, as to the

212 following: [(i)] (1) The pledging and assignment of all or any part of
213 the moneys received by or payable the corporation (A) in payment of
214 loans and interest thereon, (B) as guarantee or insurance payments
215 with respect to loans and interest thereon, or (C) otherwise with
216 respect to loans and interest thereon and other moneys [received or to
217 be] received by or payable to the corporation, to secure the payment of
218 the principal of and interest on any bonds, notes or other obligations or
219 of any issue thereof; [(ii)] (2) the pledging and assignment of all or any
220 part of the assets of the corporation including, but not limited to, loans
221 and the rights to receive payments pursuant to and enforce contracts
222 with respect to loans and interest thereon, to secure the payment of
223 principal and interest on any bonds, notes or other obligations or of
224 any issue thereof; [(iii)] (3) the use and disposition of the gross income
225 from, and the payments of principal received by or payable to the
226 corporation on, loans held by or on behalf of the corporation; [(iv)] (4)
227 the establishment of reserves or sinking funds, the making of charges
228 and fees to provide for the same, and the regulation and disposition
229 thereof; [(v)] (5) limitations on the purpose to which the proceeds of
230 sale of bonds, notes or other obligations may be applied and pledging
231 such proceeds to secure the payment of the bonds, notes or other
232 obligations, or of any issues thereof; [(vi)] (6) limitations on the
233 issuance of additional bonds, notes or other obligations, [;] the terms
234 upon which additional bonds, notes or other obligations may be issued
235 and secured [;] and the refunding or purchase of outstanding bonds,
236 notes or other obligations of the corporation; [(vii)] (7) the procedure, if
237 any, by which the terms of any contract with the holders of any bonds,
238 notes or other obligations of the corporation may be amended or
239 abrogated, the amount of bonds, notes or other obligations the holders
240 of which must consent thereto, and the manner in which such consent
241 may be given; [(viii)] (8) limitations on the amount of moneys to be
242 expended by the corporation for operating, administrative or other
243 expenses of the corporation; [(ix)] (9) the vesting in a trustee or trustees
244 of such property, rights, powers and duties in trust as the corporation
245 may determine, which may include any or all of the rights, powers and
246 duties of any trustee appointed by the holders of any bonds, notes or

247 other obligations and limiting or abrogating the right of the holders of
248 any bonds, notes or other obligations of the corporation to appoint a
249 trustee under this chapter or limiting the rights, powers and duties of
250 such trustee; [(x)] (10) a trust agreement by and between the
251 corporation and a corporate trustee which may be any trust company
252 or bank having the powers of a trust company within or without the
253 state, which agreement may provide for the pledging or assigning of
254 any assets or income from assets to which or in which the corporation
255 has any rights or interests, and may further provide for such other
256 rights and remedies exercisable by the trustee as may be proper for the
257 protection of the holders of any bonds, notes or other obligations of the
258 corporation and not otherwise in violation of law, which agreement
259 may provide for the restriction of the rights and remedies of any
260 individual holder of bonds, notes or other obligations of the
261 corporation and which agreement may contain any further provisions
262 which are reasonable and proper to delineate further the respective
263 rights, duties, safeguards, responsibilities and liabilities of the
264 corporation, of individual and collective holders of bonds, notes and
265 other obligations of the corporation and the trustee and may further
266 provide that all expenses incurred in carrying out the provisions of
267 such trust agreement may be treated as a part of the cost of operation
268 of the corporation; [(xi)] (11) covenants to do or refrain from doing
269 such acts and things as may be necessary or convenient or desirable in
270 order to better secure any bonds, notes or other obligations of the
271 corporation, or which, in the discretion of the corporation, will tend to
272 make any bonds, notes or other obligations to be issued more
273 marketable notwithstanding that such covenants, acts or things may
274 not be enumerated herein; [(xii)] (12) the satisfaction of federal
275 requirements; and [(xiii)] (13) any other matters of like or different
276 character, which in any way affect the security or protection of the
277 bonds, notes or other obligations.

278 (i) Any pledge made by the corporation of income, revenues or
279 other property to secure bonds, notes or other obligations of the
280 corporation shall be valid and binding from the time the pledge is
281 made. The income, revenue or other property so pledged and

282 thereafter received by or on behalf of the corporation shall
283 immediately be subject to the lien of such pledge without any physical
284 delivery thereof or further act, and the lien of any such pledge shall be
285 valid and binding as against all parties having claims of any kind in
286 tort, contract or otherwise against the corporation, irrespective of
287 whether such parties have notice thereof. Any such lien shall have
288 priority over all other liens, including, without limitation, the lien of
289 any person who in the ordinary course of business furnishes services
290 or materials to the corporation. Any provision of law to the contrary
291 notwithstanding, neither possession nor the filing of any financing or
292 continuation statement or other instrument shall be necessary with
293 respect to any such income, revenues or other property to establish or
294 evidence the lien of any such pledge with respect thereto. Neither this
295 section, nor any resolution authorizing bonds, notes or other
296 obligations, nor any trust agreement nor any other instrument by
297 which such a pledge is created need be recorded. Any pledge or lien
298 described by this subsection shall be conclusively deemed to be a
299 pledge or lien described by subdivision (14) of subsection (d) of section
300 42a-9-109, notwithstanding that the corporation is neither a political
301 subdivision nor an agency of the state.

302 (j) The corporation is authorized and empowered to obtain from any
303 department, agency or instrumentality of the United States any
304 insurance or guarantee as to, or of or for the payment or repayment of,
305 interest or principal, or both, or any part thereof, on any loans, or on
306 any bonds, notes or other obligations issued by the corporation
307 pursuant to the provisions of this section and notwithstanding any
308 other provisions of this chapter to enter into any agreement, contract
309 or any other instrument whatsoever with respect to any such insurance
310 or guarantee or with respect to the origination, servicing, collection
311 and administration of loans, except to the extent that such action
312 would in any way impair or interfere with the corporation's ability to
313 perform and fulfill the terms of any agreement made with the holders
314 of the bonds, notes or other obligations of the corporation.

315 (k) Neither the members of the board of directors of the corporation

316 nor any person executing bonds, notes or other obligations issued
317 pursuant to this section shall be liable personally on such bonds, notes
318 or other obligations by reason of the issuance thereof. Any resolution
319 authorizing the issuance of bonds, notes or other obligations may
320 provide for the indemnification by the corporation of the members of
321 the board of directors of the corporation and of any such person
322 executing such bonds, notes or other obligations with respect to such
323 bonds, notes or other obligations and the issuance thereof.

324 (l) The corporation shall have power to purchase bonds, notes or
325 other obligations of the corporation out of any funds available therefor.
326 The corporation may hold, cancel or resell such bonds, notes or other
327 obligations subject to and in accordance with agreements with holders
328 of its bonds, notes and other obligations.

329 (m) All moneys received by or on behalf of the corporation pursuant
330 to or subject to the pledge of any resolution or trust agreement
331 authorized by this section, whether as proceeds from the sale of bonds
332 or as revenues, shall be deemed to be trust funds to be held and
333 applied solely as provided in such resolution or trust agreement.
334 Subject to the provisions of any resolution authorizing the issuance of
335 bonds, notes or other obligations, any such moneys may be invested in
336 the Connecticut Short-Term Investment Fund and in such other
337 investments and investment agreements as may be approved by
338 resolution of the corporation. Any officer with whom, or any bank or
339 trust company with which, such moneys shall be deposited shall act as
340 trustee of such moneys and shall hold and apply the same for the
341 purposes hereof, subject to such regulations as this chapter and the
342 resolution authorizing the bonds of any issue or the trust agreement
343 securing such bonds may provide.

344 (n) Any holder of bonds, notes or other obligations issued under the
345 provisions of this section or any of the coupons appertaining thereto,
346 and the trustee or trustees under any trust agreement, except to the
347 extent the rights herein given may be restricted by any resolution
348 authorizing the issuance of, or any such trust agreement securing, such

349 bonds, notes or other obligations, may, either at law or in equity, by
350 suit, action, mandamus or other proceedings, protect and enforce any
351 and all rights under the laws of the state or granted hereunder or
352 under such resolution or trust agreement, and may enforce and compel
353 the performance of all duties required by this section or by such
354 resolution or trust agreement to be performed by the corporation or by
355 any officer, employee or agent of the corporation, including the
356 appointment of a receiver to administer any loans.

357 (o) The corporation is authorized and empowered, from time to
358 time, to issue bonds, notes or other obligations the interest on which
359 shall be includable in the gross income of the holder or holders of such
360 bonds, notes or other obligations under the Internal Revenue Code of
361 1986 or any subsequent corresponding internal revenue code of the
362 United States, as from time to time amended, and in the same manner
363 that interest on bills, bonds, notes or other obligations of the United
364 States is includable in the gross income of the [holders] holder or
365 holders thereof under said Internal Revenue Code; the state hereby
366 consents to such inclusion only for the bonds, notes and other
367 obligations of the corporation authorized by this [subsection] section.

368 (p) In connection with, or incidental to, the issuance or carrying of
369 bonds, notes or other obligations, or acquisition or carrying of any
370 investment or program of investment, the corporation may enter into
371 any contract with [the] any financial institution having a rating of at
372 least [AA] "A", or into any contract secured by security so rated, which
373 the corporation determines to be necessary or appropriate to place the
374 obligation or investment of the corporation, as represented by the
375 bonds, notes or other obligations, investment or program of
376 investment and the contract or contracts, in whole or in part, on the
377 interest rate cash flow or other basis desired by the corporation.

378 (q) In connection with, or incidental to, the issuance or carrying of
379 bonds, notes or other obligations or entering into any of the contracts
380 or [agreement] agreements referred to in subsection (p) of this section,
381 the corporation may enter into credit enhancement or liquidity

382 agreements, with payment, interest rate, security, default, remedy and
383 other terms and conditions as the corporation determines.

384 (r) The state [further] covenants with the purchasers and all other
385 subsequent owners and transferees of bonds, notes or other obligations
386 issued by the corporation pursuant to this section, in consideration of
387 the acceptance of and payment for the bonds, notes or other
388 obligations, until the bonds, notes or other obligations, together with
389 the interest thereon, with interest on any unpaid installment of interest
390 and all costs and expenses in connection with any action or proceeding
391 on behalf of the owners, are fully met and discharged or unless
392 expressly permitted or otherwise authorized by the terms of each
393 contract and agreement made or entered into by or on behalf of the
394 corporation with or for the benefit of such owners, that the state: [(i)]
395 (1) Will not create or cause to be created any lien or charge on the
396 assets or revenues pledged to secure such bonds, notes or other
397 obligations, other than a lien or pledge created thereon pursuant to this
398 section; [(ii)] (2) will not in any way impair the rights, exemptions or
399 remedies of the owners; and [(iii)] (3) will not limit, modify, rescind,
400 repeal or otherwise alter the rights or obligations of the corporation to
401 take such action as may be necessary to fulfill the terms of the
402 resolution authorizing the issuance of the bonds, notes or other
403 obligations; provided, that nothing herein shall preclude the state from
404 exercising its power, through a change in law, to limit, modify, rescind,
405 repeal or otherwise alter this chapter if and when adequate provision
406 shall be made by law for the protection of the holders of outstanding
407 bonds, notes or other obligations, pursuant to the resolution under
408 which the bonds, notes or other obligations are issued. The corporation
409 is authorized to include this covenant of the state, as a contract of the
410 state, in any agreement with the owners of any bonds, notes or other
411 obligations, in any credit facility or reimbursement agreement with
412 respect to the bonds, notes or other obligations and in any agreement
413 authorized by subsection (p) or (q) of this section.

414 (s) The provisions of this section shall be deemed to provide a
415 complete, additional and alternative method for the actions and the

416 things authorized thereby and shall be regarded as supplemental and
417 additional to powers granted by other laws; the issuance of bonds,
418 notes or other obligations under the provisions of this section need not
419 comply with the requirements of any law applicable to the issuance of
420 bonds, notes or other obligations. This section, being necessary for the
421 welfare of the state and its inhabitants, shall be liberally construed to
422 [effect] affect its purpose. None of the powers granted to the
423 corporation under the provisions of this section shall be subject to the
424 supervision or regulation or require the approval or consent of any
425 municipality or political subdivision or any department, division,
426 commission, board, body, bureau, official or agency thereof or of the
427 state, and the exercise thereof shall not cause the corporation to be
428 construed to be an agency within the scope of [section] chapter 54 or a
429 department, institution or agency of the state.

430 Sec. 5. Section 10a-205 of the general statutes is repealed and the
431 following is substituted in lieu thereof (*Effective July 1, 2005*):

432 (a) Any loan made or guaranteed by the corporation shall bear
433 simple interest at a rate not in excess of the rate provided in Title IV,
434 Part B of the Higher Education Act of 1965, where applicable. Loans
435 not governed by Title IV, Part B of said act shall bear simple interest at
436 a rate that is in compliance with state or federal consumer lending
437 laws, where appropriate. Such loans may bear an interest rate that is in
438 accordance with the rate that may be charged by an institution of
439 higher education that offers loans pursuant to subdivision (8) of
440 section 37-9.

441 (b) In the case of loans made by the corporation, the rate of simple
442 interest charged to the borrower and the term of the loan shall be at the
443 discretion of the board but shall not exceed the rate or term provided
444 by the provisions of Title IV, Part B of the Higher Education Act of
445 1965, where applicable. Loans not governed by Title IV, Part B of said
446 act shall bear simple interest at a rate and shall have a term that is in
447 compliance with state or federal consumer lending laws, where
448 appropriate. Such loans may bear an interest rate that is in accordance

449 with the rate that may be charged by an institution of higher education
450 that offers loans pursuant to subdivision (8) of section 37-9.

451 [(c) The corporation shall at all times maintain an adequate
452 restricted fund in an amount to be determined by the board which
453 fund shall be the total of (1) the amount of funds held in the restricted
454 fund by the corporation and (2) the amount of bonds authorized for
455 issuance by the State Bond Commission the proceeds of which are to
456 be deposited in the restricted fund.]

457 (c) The corporation shall at all times maintain its funds in
458 accordance with the requirements set forth in Title IV, Part B of the
459 Higher Education Act of 1965, where applicable.

460 Sec. 6. Section 10a-206 of the general statutes is repealed and the
461 following is substituted in lieu thereof (*Effective July 1, 2005*):

462 (a) The terms and conditions of any loan made or guaranteed by the
463 corporation in accordance with the provisions of Title IV, Part B of the
464 Higher Education Act of 1965 shall be governed by the provisions of
465 Title IV, Part B of the Higher Education Act of 1965. The terms and
466 conditions of any other loan made, guaranteed or serviced by the
467 corporation shall be determined by the board in a manner consistent
468 with the provisions of this chapter.

469 (b) Notwithstanding anything to the contrary provided in this
470 section, the corporation may make or guarantee a loan under terms
471 and conditions with respect to repayment which are more lenient or
472 more restrictive as to the borrower than prescribed by this section if
473 the board determines that such action on its part conforms to Title IV,
474 Part B of the Higher Education Act of 1965, where applicable.

475 [(c) The corporation shall, in accordance with such regulations
476 establishing maximum income limitations and criteria concerning
477 federal interest subsidies pursuant to the federal Higher Education Act
478 of 1965, as amended, as the corporation shall adopt and upon the
479 satisfactory completion by any borrower of a program for which such

480 loan was made, at the close of the repayment period of the contract of
481 such borrower, repay the borrower ten per cent of the total amount
482 required to be repaid by such borrower, provided such borrower is a
483 resident of this state at the time of application, except that no such
484 payments shall be made for any loan for which application is made for
485 any academic period beginning on or after July 1, 1979.]

486 Sec. 7. Section 10a-210 of the general statutes is repealed and the
487 following is substituted in lieu thereof (*Effective July 1, 2005*):

488 (a) The corporation shall make an annual report, on or before
489 December thirty-first for the fiscal year ending September thirtieth, of
490 its condition to the Governor, as provided in section 4-60, to the Board
491 of Governors of Higher Education and to the General Assembly. The
492 report shall include, in addition to the corporation's financial
493 statement, [a description of the organization, including the number of
494 employees and functions, data on the number and amounts of loans in
495 default and the results of collection activities undertaken by the
496 corporation or on behalf of the corporation] a copy of the report that
497 the corporation submits annually to the United States Department of
498 Education.

499 (b) The board shall review, at least once during each calendar
500 quarter, the actual operating budget of the corporation to ensure that
501 revenues and expenditures are remaining within annual budget
502 projections.

503 [(c) The corporation, in its discretion, may continue, transfer,
504 guarantee or administer any loans for education granted prior to July
505 1, 1965, to borrowers who qualify hereunder. Any public or private
506 loan fund which desires to transfer its assets to the corporation may do
507 so, and the corporation may assume the guarantees and other
508 obligations of such fund then outstanding in each case upon such
509 terms and conditions as the board shall prescribe.]

510 Sec. 8. Section 10a-211 of the general statutes is repealed and the
511 following is substituted in lieu thereof (*Effective July 1, 2005*):

512 The corporation and its corporate existence shall continue until
 513 terminated by law upon a finding that there no longer exists any need
 514 for such a corporation; provided no such law shall take effect so long
 515 as the corporation shall have bonds, notes or other obligations
 516 outstanding. For the purpose of this section, any appropriation or
 517 advance made to the corporation by the state, which has not been
 518 repaid, shall not be deemed to be an outstanding obligation of the
 519 corporation. Upon the dissolution of the corporation or the cessation of
 520 its activities all the assets, property and moneys of such corporation
 521 shall be [vested in the General Fund, except that any funds received by
 522 the corporation as gifts, grants, bequests, devises or contributions shall
 523 be] paid over, upon dissolution, to the respective undergraduate
 524 scholarship funds of higher educational institutions located in
 525 Connecticut, gifts to which are deductible or exempt from income,
 526 estate and succession taxation as more specifically described in
 527 Sections 170(c)(2), 501(c)(3) and 2055(a)(2) of the Internal Revenue
 528 Code of 1986, or any subsequent corresponding internal revenue code
 529 of the United States, as from time to time amended, and section 12-347,
 530 in such proportions as a majority of the board shall in its absolute
 531 discretion determine.

532 Sec. 9. Sections 10a-204a and 10a-213 to 10a-215, inclusive, of the
 533 general statutes are repealed. (*Effective July 1, 2005*)

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2005</i>	10a-202(f)
Sec. 2	<i>July 1, 2005</i>	10a-203(a)
Sec. 3	<i>July 1, 2005</i>	10a-204
Sec. 4	<i>July 1, 2005</i>	10a-204b
Sec. 5	<i>July 1, 2005</i>	10a-205
Sec. 6	<i>July 1, 2005</i>	10a-206
Sec. 7	<i>July 1, 2005</i>	10a-210
Sec. 8	<i>July 1, 2005</i>	10a-211
Sec. 9	<i>July 1, 2005</i>	10a-204a and 10a-213 to 10a-215 repealed

HED *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact: None

Municipal Impact: None

OLR Bill Analysis

sHB 6709

AN ACT CONCERNING THE CONNECTICUT STUDENT LOAN FOUNDATION**SUMMARY:**

This bill makes numerous changes to the Connecticut Student Loan Foundation's (CSLF) operations and authority. It increases the maximum term of its bonds from 30 to 40 years and reduces from "AA" to "A" the rating of the institutions with which it can contract on certain interest rate transactions. It enables CSLF to assign its assets (transfer their title) as well as pledge them (use them as collateral) to back its debt instruments and adds income and revenue payable to CSLF (receivables) to those assets.

It allows CSLF to contract with financial institutions that are not governed by federal higher education law and specifies the interest rates that apply to CSLF loans and loan guarantees that are not governed by such law. It allows CSLF's board to adopt rules governing loans CSLF finances and services, in addition to those it makes and guarantees. It removes the ability of a bond rating agency or underwriter to set terms and conditions on CSLF loans, loan guarantees, and loan sales or purchases.

The bill adds a member to the board who is knowledgeable in accounting. It allows CSLF to substitute a report it makes to the federal government for part of the report it must make to state officials.

It changes how CSLF's assets must be distributed if its existence is terminated. And it repeals several obsolete provisions.

EFFECTIVE DATE: July 1, 2005

SECTION 1—ELIGIBLE LENDERS

The bill allows CSLF to contract with financial institutions that are not governed by the Federal Higher Education Act and consequently not

eligible to participate in the student loan program. The law already allows CSLF to make, guarantee, and acquire and sell “alternative” loans, that is those not governed by the federal law.

The law allows CSLF to contract with “eligible lenders,” as defined by the federal law, for originating, administering, servicing, collecting, and guaranteeing loans; investment agreements; agreements in connection with credit facilities; agreements to moderate interest rate fluctuations; and other activities that its directors deem necessary or desirable to execute its powers.

Under the federal law, “eligible lenders” include (1) national and state banks, savings and loan associations, and credit unions whose primary consumer credit function, except under specified conditions, is not making or holding student loans; (2) pension funds; (3) insurance companies; (4) a state-designated, state or nonprofit agency; (5) higher education institutions (which include public and private colleges, and universities and private occupational schools) that make loans; (6) certain federally created secondary loan institutions; and (7) certain consumer finance subsidiaries of national banks. Under the bill, this definition applies only where applicable.

SECTION 2—BOARD OF DIRECTORS MEMBERSHIP

The bill adds a public member to CSLF’s board of directors, raising its membership to 14. The new member’s education or experience must give him an understanding of accounting principles and practices, financial statements, and audit committee functions and knowledge of internal controls. The individual must be an elector in Connecticut. He is appointed by the board of directors and serves a four-year term. By law, the term of appointed board members is coterminous with their appointing authority or until a successor is appointed.

SECTION 3—BOARD POWERS

The bill makes several changes to the CSLF board of directors’ powers. It allows the board to adopt rules governing loans CSLF finances and services, in addition to those it makes and guarantees. These rules can cover an individual’s qualifications for a loan, including financial need; loan applications and terms; and CSLF’s granting and administering of the loan. It removes a bond rating agency’s or underwriter’s authorization to set terms and conditions, within the limits of applicable federal higher education laws, on CSLF loans, loan

guarantees, and loan sales or purchases.

It allows CSLF to contract with higher education institutions, eligible lenders (see section 1), nonprofit organizations, and other legal entities to take custody of loans and for interest rate exchange agreements, in the latter case instead of agreements to moderate interest rate fluctuations. Current law allows CSLF to contract with these entities to originate, administer, service, collect, and guarantee loans and for investment and credit facility agreements.

Finally, it repeals a reference to the state's repayment of debt obligations for an obsolete loan forgiveness program. This repeal conforms to a similar repeal in section 6.

SECTION 4—CSLF DEBT INSTRUMENTS

The bill increases, from 30 to 40 years, the maximum term of CSLF bonds. It reduces, from "AA" to "A," the rating of financial institutions with which CSLF may contract, or the security that can secure contracts, for interest rate cash flow arrangements (e.g., interest rate swaps or cap transactions).

Under current law, CSLF can pledge (offer as collateral) its current funds, income, and revenue to secure its debt obligations. The bill allows it to (1) pledge money, income, and revenue payable to it (receivables) as security and (2) assign (transfer an asset's legal title) its current and receivable funds, income, and revenue. The bill permits CSLF to include in its bond resolutions provisions concerning assignment and use of assets and receivables and pledging receivables. It can already include provisions on pledging assets.

The bill specifies that all money received on behalf of CSLF or subject to a pledge contained in a bond resolution or trust agreement must be held in trust and used only as provided in the resolution or agreement. This constraint currently applies to money CSLF receives pursuant to a bond resolution or trust agreement.

SECTION 5—LOAN INTEREST

The bill limits the interest rate CSLF can charge on loans it makes or guarantees that are not governed by federal higher education law. The simple interest rate on such loans must comply with state or federal

consumer lending laws, where appropriate (e.g., on out-of-state loans CSLF guarantees, the rate of the state in which the loan is made). Their annual rate cannot exceed 12% or 5% over the Federal Reserve Board's discount rate on 90-day commercial paper (the rate that higher education institutions can charge for student loans). The bill also requires the term of loans CSLF makes (but not those it guarantees) to comply with federal and state consumer lending law, where appropriate.

The bill requires CSLF to maintain its funds attributable to activities governed by the Federal Higher Education Act in accordance with that act. It removes a requirement that CSLF maintain an adequate restricted fund. Under current law, that fund must equal the foundation's restricted fund plus any state bonds authorized for deposit in the restricted fund.

SECTION 6—ELIMINATE OBSOLETE REFERENCE

The bill eliminates a reference to an obsolete loan forgiveness program.

SECTION 7—REPORTING REQUIREMENTS

The bill permits CSLF to submit a copy of its report to the U.S. Department of Education as part of the annual report it must submit to the governor and General Assembly. It may do so instead of providing a description of the organization, including the number of employees and data on the number and amount of loans in default. CSLF must continue to submit a financial statement with its report.

The law requires CSLF to review its operations against budget projections at least quarterly. The bill requires this review to include its revenues in addition to its expenditures.

It deletes an obsolete reference to administering loans made before July 1965.

SECTION 8—USE OF ASSETS UPON DISSOLUTION

The bill directs that if the foundation is terminated (which cannot occur as long as it has outstanding debt) all its assets, property, and money must go to the undergraduate scholarship funds of nonprofit colleges and universities in the state in proportions the board

determines. Under current law, only gifts, grants, bequests, or contributions made to CSLF go to these institutions; all other money and property go to the General Fund.

SECTION 9—REPEALERS

The bill repeals laws that (1) authorize the state to issue up to \$5 million in state bonds to a capitalize a fund to support CSLF's loan guarantees and (2) require CSLF to maintain a separate restricted fund to back any state-supported loan guarantees and authorize it to borrow from the General Fund, if necessary, to meet those obligations. Federal law requires CSLF to maintain a fund to back its guarantees on loans made under that law.

The bill repeals CSLF authority to use its surplus funds to establish a loan or grant program for people who do not qualify for federally guaranteed loans.

COMMITTEE ACTION

Higher Education and Employment Advancement Committee

Joint Favorable Substitute

Yea 20 Nay 0